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CAPE AGULHAS MUNICIPALITY
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CAPE AGULHAS MUNICIPALITY

RISK MANAGEMENT POLICY

2012

Approved by Council 28 August 2012

INDEX

REF. NO.	CONTENT	PAGE NO.
	RISK MANAGEMENT PHILOSOPHY	4
1.	**OVERVIEW**	5
1.1.	Introduction	5
1.2.	Purpose	5
1.3.	Scope	5
1.4.	Background	5
1.4.1.	Legislative Mandate	5
1.4.2.	Objectives of Risk Management	5
1.4.3.	Benefits of Risk Management	6
1.4.4.	Risk, Risk Management and Enterprise Risk Management	6
2.	**ROLES AND RESPONSIBILITIES**	6
2.1.	Risk Management Oversight	7
2.1.1.	Executive Authority (Council)	7
2.1.2.	Audit Committee	7
2.1.3.	Risk Management Committee	7
2.2.	Risk Management Implementers	7
2.2.1.	Accounting Officer	7
2.2.2.	Management	7
2.2.3.	Other Officials	7
2.3	Risk Management Support	8
2.3.1.	Chief Risk Officer	8
2.3.2.	Risk Champion	8
2.4.	Risk Management Assurance Providers	8

REF. NO.	CONTENT	PAGE NO.
2.4.1.	Internal Audit	8
2.4.2.	External Audit	8
3.	**RISK MANAGEMENT PROCESS**	8
3.1.	Internal Environment	9
3.2.	Objective Setting	9
3.3.	Event Identification	9
3.4.	Risk Assessment	10
3.5.	Risk Response	10
3.6.	Control Activities	10
3.7.	Information and Communication	10
3.8.	Monitoring	11
4.	**REPORTING**	11
5.	**POLICY REVIEW**	11
6.	**GLOSSARY OF TERMS**	12

RISK MANAGEMENT PHILOSOPHY

Cape Agulhas Municipality is committed to the optimal management of risks in order to achieve our vision, deliver on our core business and key objectives.

In the course of conducting our day-to-day business operations, we are exposed to a variety of risks. These risks include operational and other risks that are material and require comprehensive controls and on-going oversight.

To ensure business success we have adopted an enterprise-wide integrated approach to the management of risks. By embedding the risk management process into key business processes such as planning, operations and new projects, we will be better equipped to identify events affecting our objectives and to manage risks in ways that are consistent with the approved risk appetite.

To further implement the enterprise-wide approach, we have taken a number of steps to reinforce a culture of disciplined risk-taking.

Council is responsible for oversight of the risk management process and has delegated its day-to-day implementation to the Accounting Officer. The Accounting Officer, who is accountable for the overall governance of the municipality's risks, has delegated this role to the Chief Risk Officer (CRO) and Management. The CRO will ensure that the framework is implemented and that council and the Risk Management Committee (RMC) receive appropriate reporting on the municipality's risk profile and risk management process. Management will execute their responsibilities outlined in the Risk Management Strategy. All other officials are responsible for incorporating risk management into their day-to-day activities.

As the Accounting Officer of Cape Agulhas Municipality, council and I are responsible for enhancing corporate governance within the municipality and to ensure that appropriate focus is placed on important tasks.

ACCOUTING OFFICER

1. OVERVIEW

1.1. Introduction

The Accounting Officer has committed Cape Agulhas Municipality to implementing and maintaining an effective, efficient and transparent system of risk management. The process of risk management is aligned to the principles as set out in the King III Report on Governance for South Africa and as supported by the Municipal Finance Management Act (MFMA), Act no. 56 of 2003.

1.2. Purpose

Through this policy Cape Agulhas Municipality puts into practice its commitment to implement risk management and embed a culture of risk management within the municipality. This policy forms the basis for the accompanying Risk Management Strategy which is designed to help achieve the objective of implementing an effective Enterprise Risk Management (ERM) process.

1.3. Scope

The scope of this policy applies throughout Cape Agulhas Municipality in as far as risk management is concerned.

1.4. Background

1.4.1. Legislative Mandate

Section 62(1)(c)(i) and 95(c)(i) of the MFMA states that: "… The accounting officer of the municipality and municipal entity is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control."

1.4.2. Objectives of Risk Management

The objectives of risk management are to assist Management in making more informed decisions which:

- provide a level of assurance that current significant risks are effectively managed;
- improve operational performance by assisting and improving decision making and planning;

- promote a more innovative, less risk averse culture in which the taking of calculated risks in pursuit of opportunities, to benefit the Municipality, is encouraged; and
- provide a sound basis for integrated risk management and internal control as components of good corporate governance.

1.4.3. Benefits of Risk Management

The risk management process can make major contributions towards helping the municipality achieve its objectives. The benefits include:

- more sustainable and reliable delivery of services;
- enhance decision making underpinned by appropriate rigour and analysis;
- reduced waste;
- prevention of fraud and corruption;
- fewer surprises and crises;
- help avoid damage to the municipality's reputation and image;
- helps ensure effective reporting and compliance with laws and regulations;
- better value for money through more efficient use of resources; and
- better outputs and outcomes through improved project and programme management.

1.4.4. Risk, Risk Management and Enterprise Risk Management

Risk is an uncertain future event that could influence the achievement of the Municipality's strategic and business objectives.

Risk Management is a systematic and formalised process instituted by the Municipality to identify, assess, manage, monitor and report risks to ensure the achievement of objectives.

Enterprise Risk Management is a process, effected by the Municipality Accounting Officer, Management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the Municipality, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the Municipality's objectives.

2. ROLES AND RESPONSIBILITIES

Every person within Cape Agulhas Municipality has a role to play in the risk management process. The primary responsibility for identifying and managing risks lies with Management.

2.1. Risk Management Oversight

2.1.1. Executive Authority (Council)

Council takes an interest in risk management to the extent necessary to obtain comfort that properly established and functioning systems of risk management are in place to protect Cape Agulhas Municipality against significant risks.

2.1.2. Audit Committee

The Audit Committee (AC) is an independent committee responsible for oversight of the municipality's control, governance and risk management. The responsibilities of the AC with regard to risk management are formally defined in its charter. The AC primary responsibility is providing an independent and objective view of the effectiveness of the municipality's risk management process.

2.1.3. Risk Management Committee

The RMC is appointed by the Accounting Officer to assist in the discharge of his/her risk management responsibilities. The committee's role is to review the risk management progress and maturity of the Municipality, the effectiveness of risk management activities, the key risks facing the Municipality and the responses to address these key risks. The responsibilities of the RMC are formally defined in its charter.

2.2. Risk Management Implementers

2.2.1. Accounting Officer

The Accounting Officer is ultimately responsible for risk management within the municipality. By setting the tone at the top, the Accounting Officer promotes accountability, integrity and other factors that will create a positive control environment.

2.2.2. Management

All other levels of management support the municipality's risk management philosophy promote compliance with the risk appetite and manage risks within their areas of responsibility.

2.2.3. Other Officials

Other officials are responsible for integrating risk management into their day-to-day activities i.e. by ensuring conformance with controls.

2.3. Risk Management Support

2.3.1. Chief Risk Officer

The CRO is the custodian of the Risk Management Strategy and the coordinator of ERM activities throughout Cape Agulhas Municipality. The primary responsibility of the CRO is to use his/her specialist expertise to assist the municipality to embed ERM and leverage its benefits to enhance performance.

2.3.2. Risk Champion

A Risk Champion would generally hold a senior position within the Municipality and possess skills, knowledge and leadership qualities required to champion a particular aspect of risk management. The Risk Champions primary responsibility is advising on, formulating, overseeing and managing all aspects of a Municipality's risk management system. The Risk Champion monitors the Municipality's entire risk profile, ensuring that major risks are identified and reported upwards.

2.4. Risk Management Assurance Providers

2.4.1. Internal Audit

The core role of Internal Audit in risk management is to provide an independent, objective assurance to council and the Audit Committee on the effectiveness of risk management. Internal Audit also assists in bringing about a systematic, disciplined approach to evaluate and improve the effectiveness of the entire system of risk management and provide recommendations for improvement where necessary.

2.4.2. External Audit

The External Auditor (Auditor-General OF South Africa) is required by section 188 of the Constitution of the Republic of South Africa, 1996 and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), to express an opinion on the Municipality's financial statements based on his audit.

3. RISK MANAGEMENT PROCESS

The risk management process consists of eight (8) components.

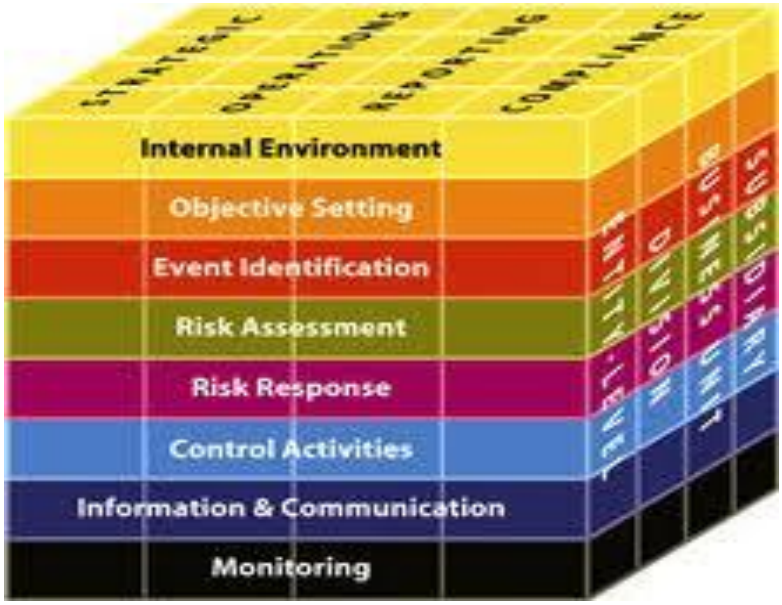

Figure 1: Risk Management Process

3.1. Internal Environment

The internal environment encompasses the tone of Cape Agulhas Municipality, influencing the risk consciousness of its people. It is the foundation for all other components of risk management, providing discipline and structure.

3.2. Objective Setting

Objectives are set at the strategic level, establishing a basis for operations, reporting, and compliance objectives. Objectives are to be aligned with the Municipality's risk appetite.

3.3. Event Identification

Event identification is the process of identifying potential events affecting Cape Agulhas Municipality's ability to successfully implement strategy and achieve objectives.

3.4. Risk Assessment

Risk assessments allow the municipality to consider the extent to which potential events might have an impact on the achievement of objectives. Management should assess events from two perspectives impact and likelihood and normally uses the quantitative method i.e. risk rating scales for both the inherent and residual basis.

3.5. Risk Response

Having assessed relevant risks, management determines how it will respond. Responses include risk avoidance, reduction, sharing and acceptance.

3.6. Control Activities

Control activities are the policies and procedures that help ensure that management's risk responses are carried out. Control activities occur throughout the municipality, at all levels and in all functions. They include a range of activities as diverse as approvals, authorisations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

3.6.1. Risk Appetite

The term "risk appetite" can be defined as the acceptable level or amount of risk that the municipality is willing to accept, before action is needed to reduce it.

Cape Agulhas Municipality has set its risk appetite level at a risk grading of 13 (out of a maximum of 25). This implies that that all risks, strategic and operational, with a grading of 14 or higher will be addressed each year. However, the Municipality's risk appetite will be reassessed on a yearly basis, based on the annual risk assessment exercise results and adjusted if required. The ultimate goal is to reduce the risk level of the Municipality to acceptable levels.

The Municipality has committed itself to aggressively pursue managing risks to be within its risk appetite to avoid exposures to losses and to manage actions that could have a negative impact on the reputation of the municipality.

3.7. Information and Communication

Pertinent information is identified, captured and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective communication also occurs, flowing down, across and up in the municipality. All personnel receive a clear message from top management that risk management responsibilities must be taken seriously. They understand their own role in risk management, as well as how individual activities relate to the work of others. They must have a means of communicating significant information upstream. There is also effective communication with external parties.

3.8. Monitoring

Monitoring risk management is a process that assesses the presence and functioning of its components over time. This is accomplished through on-going monitoring activities, separate evaluations or a combination of the two. On-going monitoring occurs in the normal course of management activities. The scope and frequency of separate evaluations will depend primarily on an assessment of risks and the effectiveness of on-going monitoring procedures.

4. REPORTING

The following minimum reports will be compiled and presented to council, Audit Committee and the RMC:

- A summary of risk broken down into operating units.
- A summary of existing gaps in the capabilities for managing significant risks.
- A report of emerging issues or risks that requires immediate attention.
- Integrated reporting and disclosure (Combined Assurance)

5. POLICY REVIEW

This policy shall be reviewed annually to reflect the current stance on risk management within the Cape Agulhas Municipality.

GLOSSARY OF TERMS

Event - An incident or occurrence from internal or external sources that affects the achievement of Cape Agulhas Municipality's objectives.

Impact - A result or effect of and event. The impact of an event can be positive or negative. A negative event is termed a "risk".

Inherent - The risks to Cape Agulhas Municipality in the absence of any actions management might take to alter either the risk's impact or likelihood. In other words the impact that the risk will have on the achievement of objectives if the current controls that are in place are not considered.

Likelihood / Probability - The probability of the event occurring.

Operations - used with "objectives", having to do with the effectiveness and efficiency of the municipality's activities, including performance and safeguarding resources against loss.

Priority / Key Risks - Risks that are rated high on an inherent level. Risks that need to be acted upon. Risks that possess a serious threat to the municipality.

Project Risks - Risks that are identified for all major projects, covering the whole lifecycle and for long-term projects.

Residual - The remaining exposure after the controls/treatments has been taken into consideration. (The remaining risk after management has put in place measures to control the inherent risk).

Risk Owner - The person responsible for managing a particular risk.

Risk Profile / Register - Also known as the risk register. The risk profile will outline the number of risks, type of risk and potential effects of the risk. This outline will allow the municipality to anticipate additional costs or disruptions to operations. Also describes the willingness of a company to take risks and how those risks will affect the operational strategy of the municipality.

Risk Response - Management develop strategies to reduce or eliminate the threats and events that create risks.

Stakeholders - Parties that are affected by the Municipality, such as the communities in which the Municipality operates, employees, suppliers etc.

Strategic – used with "objectives", it has to do with high-level goals that are aligned with and support the Municipality's mission or vision.

Mitigation / Treatment - After comparing the risk score (severity rating = impact X likelihood) with the risk tolerance, risks with unacceptable levels of risk will require treatment plans (additional action to be taken by management)

ACKNOWLEDGEMENT OF APPROVAL

Approved by Council Resolution:

Resolution No.: _____

Date: _____